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E.O. 12958: N/A

TAGS: FAIR ECON EFIN EINV JA

SUBJECT: PSPC CHAIRMAN TANAKA WANTS TO END MARKET DISTORTIONS BUT ALSO ENSURE JAPAN POST CAN COMPETE

¶1. (SBU) SUMMARY: A level playing field should be established before the successor companies of Japan Post (JP) can expand their product offerings, Naoki TANAKA, chairman of the Postal Services Privatization Committee (PSPC) clearly stated to ECOUNS on April 21. He was also positive on the need for the PSPC to operate in a transparent manner. He emphasized, however, that the committee also has a responsibility to ensure the postal companies are able to develop the capabilities to compete in the open market. END SUMMARY

¶2. (SBU) BACKGROUND: The PSPC is provided for in the Postal Privatization Law as an outside panel of experts charged with considering applications for new products or expanded business from the privatizing postal companies. As such, it is expected to play a critical role in advising on how to balance what the government calls management freedom for JP with concerns from the private sector (including many US companies) that the new companies will continue to enjoy preferential regulatory, tax or other treatment as they expand into new business areas. US firms concerned over this possibility (including insurance and express delivery service providers) were buoyed by the appointment of Tanaka to the chairmanship. Tanaka, a long-time proponent of Japan Post privatization, is the head of a think-tank, the 21st Century Institute, and is an economist with a strong belief in free markets.

¶3. (SBU) Although Japan Post will privatize in October 2007, the law specifically allows for the company to expand its business activities in the express delivery area from April 2006. The first case came earlier this month, when the committee, after three closed-door meetings, quickly approved JP's proposed joint venture with All Nippon Airways (ANA) to provide international express delivery services. Tanaka stated unambiguously that the committee did not believe the new company would unfairly harm private businesses competing in the express delivery market. The committee received a detailed briefing from the Ministry of Internal Affairs and Communications (MIC) and JP on the proposal, but did not offer private industry a chance to air concerns over possible unfair competition. In fact, a US express mail representative has told us that there was little concern about the joint venture and the PSPC stipulated that joint venture be periodically reviewed. However, the lack of transparency in the process has also alarmed US firms; meeting minutes were released ex-post, but there was no opportunity for ex-ante input or provisions for public comment. END BACKGROUND.

¶4. (SBU) During a courtesy call by ECOUNS, Tanaka emphasized the importance of eliminating market distortions, which historically have plagued the Japanese economy. The

"dividends of reforms", that is, future increased economic efficiency for the benefit of consumers, will result from this emphasis on economic rationalization, and he added that Prime Minister Koizumi has emphasized to him the importance of this dividend in the case of Japan Post privatization. Tanaka was emphatic that Japan should be open to all market participants, including foreign ones. Given Japan's demographic challenge in the years to come, foreign companies should have access to Japan's markets to enhance productivity and increase efficiency. The way to do this, he added, is with a level regulatory playing field, an atmosphere of confidence for foreign investors, and transparent decision-making.

¶15. (SBU) On transparency, he acknowledged that a rule-based system with ex-post and ex-ante transparency is critical for creating a good environment for investment. He seemed to understand our concerns over the need for advance notice of meeting agendas and the opportunity for meaningful input from private sector stakeholders. When urged to provide opportunity for stakeholders to submit their comments, and ample time for the committee to consider such comments, he stated simply, "I accept this." He said the PSPC would hold an initial discussion of issues and then seek public comment before a final decision. He noted that transparency would also be important for JP workers and unions.

¶16. (SBU) However, Tanaka emphasized that there is another side to this equation: his responsibility to help the thousands of JP employees have an opportunity to enhance their capabilities to compete in the market. The way to do so is by allowing development of new products and services. He strongly agreed, however, that the introduction of new products should be preceded by the creation of a level playing field and the elimination of monopoly protections,

the possibilities for cross-subsidization arrangements between the JP companies, and tax and regulatory benefits.

¶17. (SBU) When urged to establish transparently criteria for the PSPC to apply to its decisions, Tanaka insisted that to a certain extent, an ad hoc, case-by-case method was inevitable, because there is no textbook for how a privatization on this scale should be carried out. Still, he acknowledged that the PSPC should define guidelines on how it will proceed, and lay out more specifically the scope of their work. Tanaka also stated that the Regional and Social Contribution Fund, which was included as a compromise in the privatization law, will only be used to ensure universal mail delivery service, not for JP's insurance or banking arms.

COMMENT

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¶18. (SBU) Tanaka appears to be genuinely convinced of the importance of eliminating government-supported market distortions, and his call for participation in Japan's market by foreign firms is encouraging. As a free-market economist, he believes market efficiency is critical, as is seen in his call for an end to market distortions and his repetition of the phrase "the dividend of reform" as something of a mantra for his committee's actions.

¶19. (SBU) However, he also clearly believes he must bear responsibility for the postal employees and appears to be sincerely dedicated to providing opportunities to help them develop the skills they will need to survive in the market. Although he described this responsibility as "a big headache" he is evidently dedicated to carrying it out. Also, as an economist perhaps more used to working with the theoretical, he seems to be feeling his way through transparency issues. After initial bemusement, he responded favorably to our push for transparency, public comment and stakeholder input, but his reaction suggests he did not expect this to become such a priority for us. We also had the impression that he may have been thinking through some of the practical issues as we spoke. Nonetheless, it is clear his general instincts on our concerns are favorable.

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